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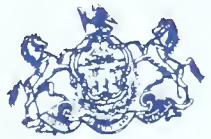
PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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ANNUAL REPORT

PSERS ANNUAL REPORT

FOR THE PERIOD ENDING JUNE 30, 1975



COMMONWEALTH
DEPARTMENT OF EDUCATION
PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD
BOX 125
HARRISBURG, PENNSYLVANIA 17108
Area Code 717-787-8546

To the Honorable Milton J. Shapp,
Governor of Pennsylvania,
Members of the General Assembly,
Public School Employees and
Retirees

The Public School Employees' Retirement
Board is pleased to present its annual
report for the fiscal year ending
June 30, 1975.

Respectfully,

John C. Pittenger
John C. Pittenger
Chairman

The Pennsylvania Public School Employes' Retirement System (PSERS) is administered by a nine-member board:

John C. Pittenger, state secretary of education, chairman; Frank N. Happ, ex-officio, representing Grace M. Sloan, state treasurer; John D. Killian, appointed by the Governor; Robert C. Baldis, Edward J. Smith and Joseph F. D'Andrea, all elected from the system's active membership; Margaret Root, elected from the annuitants; Fred M. Heddinger, executive secretary of the Pennsylvania School Boards Association; George L. Morrison Jr., member who is neither a state nor school employe, chosen annually by the board.

The Pennsylvania Public School Employes' Retirement System was established in 1919. To comply with the state retirement law, we submit this annual report for the period ending June 30, 1975.

STAFF

ONLY FOUR CHIEFS IN 57 YEARS

Including the current secretary, Frank R. Cashman, PSERS has had four secretaries since 1918, the year of its founding. The only living former secretary is J. Y. Shambach, now in his 91st year and living in Camp Hill. He served as board secretary from 1944 to 1950.

Pictures of the four secretaries, including a recent one of Mr. Shambach, are now on display in the PSERS reception office, where they will remain permanently.

Frank R. Cashman, secretary;
M. Andrew Sheffler, assistant secretary;
Richard J. McElroy, chief accountant;
John C. Sandrock, chief, contributor services;
Thomas E. Yagel, chief, administrative services;
Charlene R. House, chief, record services.

LEGAL COUNSEL

Raymond Kleiman, deputy state attorney general

ADVISERS

Investment counsel

Mellon Bank NA
Mellon Square
Pittsburgh PA 15230

Mortgage counsel

Fidelity Bank
P. O. Box 1300
Philadelphia PA 19105

ACTUARY

George B. Buck Consulting Actuaries
2 Pennsylvania Plaza
New York NY 10001

HOW PSERS OPERATES

Pennsylvania's Public School Employes' Retirement System (PSERS) allows members to accumulate funds for retirement benefits which provide an income for life after reaching a certain age or a required number of years of service.

The Commonwealth and local school districts also contribute to the fund. Their rate is determined each year by the actuary. PSERS operates under the actuarial reserve plan. Required reserves accumulate to pay the retirement allowances as they accrue. Under the law the school employe, the Commonwealth and the school districts pay each year into their reserve funds. This, plus compound interest, pays benefits provided by law.

Interest fees, creating and maintaining reserves in the fund, the payment of retirement allowances and other benefits are obligations of the Commonwealth.

Allowances paid to retirees are fixed. They can be changed only by legislation. No provision in the Retirement Act permits payment of variable annuities to take care of the inflationary cost of living. Not until the state constitution was amended in 1955 was the fund allowed to increase payment to members already retired.

Certain allowances are inadequate because of inflation, which soared to record levels in 1974. Legislation is pending to adjust fixed incomes.

INVESTMENTS

The fiscal year ending June 30, 1975, was a year of growth in both assets and earnings. During the year, the investment fund increased by \$280.2 million to a total of \$2.9 billion, a growth of 10.5 per cent. Annual earnings advanced 13.3 per cent, from \$155.2 million to \$175.9 million, while the yield to maturity increased from 6.06 to 6.1 per cent. Earnings increased faster than assets because new investments were bought at interest rates higher than the fund's average yield. Also, lower yield bonds were exchanged for higher-yielding debt securities.

The PSERS fund is audited regularly by the State Auditor General.

Pensurdata Inc., pension consultants for public retirement programs, will install an automated reporting system which will provide PSERS membership with faster and more efficient service. Pensurdata has completed design and layout of the new system.

The largest investment for the year was in industrial / commercial bonds, which increased by \$95.3 million. Short-term investments were the next most active, increasing by \$75.2 million. Third largest was the common equities market, increasing by \$58.3 million to five per cent of the total \$2.9 billion retirement fund.

Becker Securities again evaluated the retirement fund's performance from June 30, 1974, through June 30, 1975, on a quarterly basis. Becker ranked the PSERS fund among the top earning performers of the 50 funds studied in 1973.

JUNE 30, 1974
AND 1975

PUBLIC SCHOOL EMPLOYEES COMPARATIVE BALANCES

	June 30		Increase/ (Decrease)
	1975	1974	
ASSETS			
Cash on Deposit in Treasury	\$ 901,379.74	\$ 341,153.94	\$ 560,225.80
Investments at cost (Notes 1 & 3)	2,944,957,524.98	2,664,740,310.34	280,217,214.64
Interest Receivable on Investments	38,784,609.04	34,358,242.43	4,426,366.61
Contributions Receivable:			
School Districts & Others	81,225,133.02	34,947,182.08	46,277,950.94
Employees	12,520,578.27	15,239,019.79	(2,718,441.52)
State	81,000,000.00	85,000,000.00	(4,000,000.00)
TOTAL ASSETS	\$3,159,389,225.05	\$2,834,625,908.58	\$324,763,316.47
LIABILITIES & RESERVES			
Accounts Payable	\$ 13,161.75	\$ 268.63	\$ 12,893.12
Employees' Annuity Savings	959,540,183.68	880,540,396.55	78,999,787.13
Reserves:			
Employees' Annuity Reserve	320,099,027.30	289,615,945.11	30,483,082.19
State Annuity Reserve	1,512,416,954.34	1,329,081,857.33	183,335,097.01
Contingent Reserve	392,464,110.19	372,814,632.30	19,649,477.89
Supplemental Reserve	(25,144,212.21)	(37,427,191.34)	12,282,979.13
TOTAL LIABILITIES AND RESERVES	\$3,159,389,225.05	\$2,834,625,908.58	\$324,763,316.47

ES' RETIREMENT FUND BALANCE SHEETS

	June 30		increase/ (Decrease)
	1975	1974	
Note 1: Investments at cost			
Par Value	\$2,987,681,291.84	\$2,696,977,120.08	\$290,704,171.76
Net Discounts	(42,723,766.86)	(32,236,809.74)	(10,486,957.12)
Total Cost	\$2,944,957,524.98	\$2,664,740,310.34	\$280,217,214.64

The Board makes provisions for systematically amortizing net discounts throughout the life of the bonds by a direct charge and credit to interest income and net discounts, respectively.

Note 2: The system's unfunded accrued liability is \$1,720,329,116 as of June 30, 1972, and \$1,656,635,207 as of June 30, 1973.

Note 3: Investments include FHA and VA insured mortgages in default for the fiscal year ending June 30, 1975, in the amount of \$3,141,623, and for the fiscal year ending June 30, 1974, in the amount of \$4,084,393, a net decrease of \$942,770 under the June 30, 1974, amount.

Note 4: Reports subject to Auditor General's review.

STATEMENT OF INCOME

JUNE 30, 1974 AND 1975

	June 30		Increase / (Decrease)
	1975	1974	
Gross Interest on Investments	\$175,918,367.56	\$155,223,106.17	\$20,695,261.39
Plus Discounts and Gains on Sales and Misc. Revenue (Note 1)	5,597,854.46	4,822,984.46	774,870.00
Less Deductions (Note 1)	(1,778,032.47)	(1,783,444.91)	5,412.44
 Net Income	 \$179,738,189.55	 \$158,262,645.72	 \$21,475,543.83

Note 1: The operating and administrative expenses of the Board are paid from the School Employees' Retirement Fund, a Trust and Agency Fund of the Commonwealth.

All other expenses and losses are debited to investment income. For the fiscal years ending June 30, 1975, and June 30, 1974, they are as follows:

	1975	1974	Increase / (Decrease)
Amortization of Net Premium/ Discount	\$3,398,404.40	\$1,770,992.79	\$1,627,411.61
Gain on Sale	2,198,607.87	3,050,982.17	(852,374.30)
Miscellaneous Revenue	842.19	1,009.50	(167.31)
 	 \$5,597,854.46	 \$4,822,984.46	 \$ 774,870.00
 Loss on Sale	 \$165,319.98	 \$128,298.30	 \$37,021.68
Service Fees	1,336,285.31	1,393,621.69	(57,336.38)
Investment Expense	276,409.18	261,524.92	14,884.26
Miscellaneous Expense	18.00	0.00	18.00
 	 \$1,778,032.47	 \$1,783,444.91	 (\$ 5,412.44)

STATEMENT OF COLLECTIONS

	June 30 1975	1974	Increase / (Decrease)
Contributions from State	\$122,278,653.74	\$104,889,063.02	\$17,389,590.72
Contributions from Employes	112,431,050.63	107,758,980.70	4,672,069.93
Contributions from School	120,797,911.91	110,276,262.04	10,521,649.87
	\$355,507,616.28	\$322,924,305.76	\$32,583,310.52

	June 30 1975	1974	Increase / (Decrease)
Payments to Annuitants	\$234,586,505.18	\$216,622,807.64	\$17,963,697.54
Refunded Principal & Interest	13,989,614.04	14,449,859.55	(460,245.51)
Transfers to State Retirement Board	759,010.59	2,195,420.68	(1,436,410.09)
•	\$249,335,129.81	\$233,268,087.87	\$16,067,041.94

SUMMARY OF INVESTMENT HOLDINGS

FOR THE
FISCAL YEARS ENDING
JUNE 30, 1974 AND 1975

	June 30		Increase / (Decrease)
	1975	1974	
At PAR			
State and Municipal	\$ 230,000.00	\$ 259,000.00	\$ (29,000.00)
P.H.E.A.A.	1,179,300.00	1,079,300.00	100,000.00
International & Inter-Am. Banks	69,662,000.00	59,196,000.00	10,466,000.00
Post Offices	5,794,450.11	16,219,007.82	(10,424,557.71)
University of Pittsburgh	1,107,000.00	1,187,000.00	(80,000.00)
Industrial and Commercial	864,628,546.35	769,273,455.45	95,355,090.90
Public Utilities	965,782,108.14	922,206,432.60	43,575,675.54
Finance Companies	203,818,000.00	188,486,000.00	15,332,000.00
Railroads - Corporate	16,643,000.00	16,643,000.00	0.00
Railroads - Equipment Trust	47,968,568.82	75,140,015.11	(27,171,446.29)
Short Term	176,925,000.00	101,760,647.20	75,164,352.80
U. S. Bills	31,289,667.48	14,192,039.86	17,097,627.62
Philadelphia National Bank Bldg	14,496,167.12	14,757,416.41	(261,249.29)
FHA Project Mortgages	85,606,551.90	81,971,248.61	3,635,303.29
Capehart Mortgages	26,354,205.83	28,074,967.02	(1,720,761.19)
Project Mortgage Debentures	4,245,000.00	2,157,600.00	2,087,400.00
FHA and VA Mortgages	321,578,473.96	312,316,376.70	9,262,097.26
Common Stocks (cost value)	150,373,252.13	92,057,613.30	58,315,638.83
Total Par Value	\$2,987,681,291.84	\$2,696,977,120.08	\$290,704,171.76
Yield to Maturity	6.19%	6.06%	.13%

PAR VALUE

PUBLIC SCHOOL EMPLOYES' RETIREMENT

INVESTMENT HOLDINGS

1965-1975

1,050,000,000

900,000,000

750,000,000

500,000,000

400,000,000

300,000,000

200,000,000

100,000,000



1965 1975 1975 1965 1975 1975 1965 1975 1965 1975 1965 1975
RAILROAD CORP. & EQ. TRUSTS BONDS INTER-AM BK. & INT'L BK. FOR R. & R. FHA PROJECT MTG. & OTHERS FINANCE COS. BONDS
INTER-AM BK. & INT'L BK. FOR R. & R. FHA PROJECT MTG. & OTHERS FINANCE COS. BONDS SHORT TERM NOTES & U.S. TREASURY BILLS
FHA PROJECT MTG. & OTHERS FINANCE COS. BONDS SHORT TERM NOTES & U.S. TREASURY BILLS FHA & VA RESIDENTIAL MTGS.
FINANCE COS. BONDS SHORT TERM NOTES & U.S. TREASURY BILLS FHA & VA RESIDENTIAL MTGS. INDUSTRIAL & COMMERCIAL BONDS
SHORT TERM NOTES & U.S. TREASURY BILLS FHA & VA RESIDENTIAL MTGS. INDUSTRIAL & COMMERCIAL BONDS PUBLIC UTILITIES BONDS
FHA & VA RESIDENTIAL MTGS. INDUSTRIAL & COMMERCIAL BONDS PUBLIC UTILITIES BONDS COMMON STOCKS COST

PER CENT

1965-1975

YIELD TO MATURITY

INVESTMENT HOLDINGS

7

6

5

4

3

2

1

1965

1966

1967

1968

1969

1970

1971

1972

1973

1974

1975

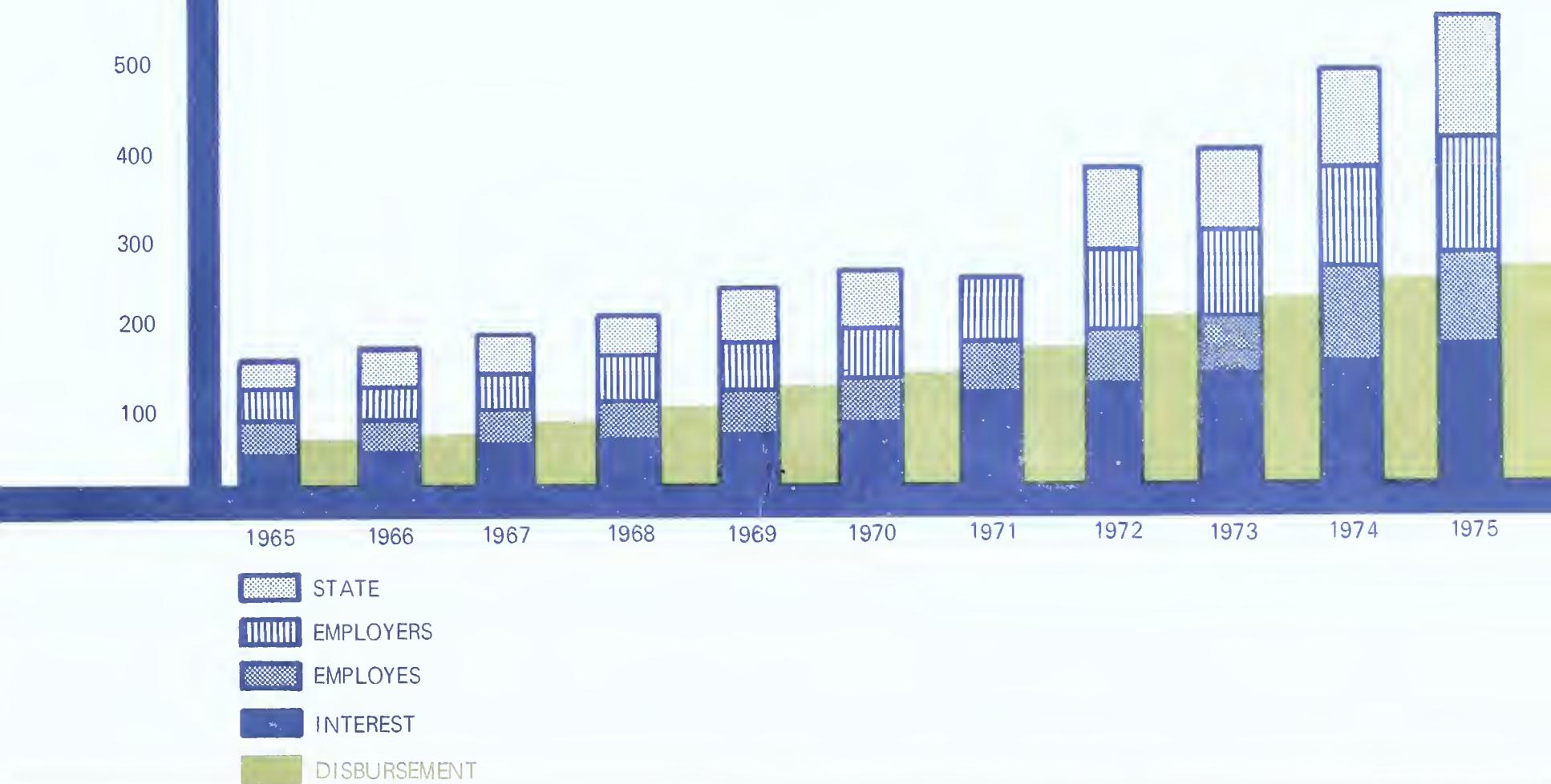
(Including Common Stocks)

MILLION
\$800

PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND

REVENUE AND DISBURSEMENTS

1965-1975



Please note.....

By the time this Annual Report is published and distributed, PSERS will have moved to new headquarters at Room 200, City Towers, 301 Chestnut Street, Harrisburg. Our mailing address will stay the same: Box 125, Harrisburg, PA 17108. Our phone number will also remain the same: (717) 787-8546.

PUBLIC SCHOOL EMPLOYES' RETIREMENT SYSTEM
Box 125 Harrisburg PA 17108
Frank R. Cashman, Secretary

Bulk Rate U.S. Postage

PAID

Permit No. 254 Harrisburg, Pa.